

**THE OFFICE OF REGULATORY STAFF  
DIRECT TESTIMONY AND EXHIBITS  
OF  
IVANA C. GEARHEART**

**JULY 1, 2013**



**DOCKET NO. 2013-42-S**

**Application of Palmetto Utilities, Inc. for  
Adjustment of Rates and Charges**

**DIRECT TESTIMONY OF IVANA C. GEARHEART**

**FOR**

**THE OFFICE OF REGULATORY STAFF**

**DOCKET NO: 2013-42-S**

**IN RE: APPLICATION OF PALMETTO UTILITIES, INC. FOR ADJUSTMENT  
OF RATES AND CHARGES**

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND  
OCCUPATION.**

**A.** My name is Ivana Gearheart. My business address is 1401 Main Street,  
Suite 900, Columbia, South Carolina, 29201. I am employed by the South  
Carolina Office of Regulatory Staff ("ORS") as an Auditor.

**Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND  
EXPERIENCE.**

**A.** I received a Master's Degree in Business Administration with an emphasis  
in Accounting from Winthrop University in 2006. Prior to joining ORS, I held a  
variety of positions in finance, accounting, and auditing. I began my employment  
as an auditor with ORS in June 2011 and have participated in various audits of  
utility companies, which included water and wastewater rate cases and have  
previously testified before the Public Service Commission of South Carolina  
("Commission").

**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS  
PROCEEDING?**

1     **A.**           The purpose of my testimony is to set forth my findings and  
2           recommendations resulting from ORS's examination of the application of Palmetto  
3           Utilities, Inc. ("Palmetto" or "Company") in this docket, 2013-42-S. The  
4           application was filed on March 11, 2013.

5     **Q.   PLEASE DESCRIBE THE PROCEDURES USED TO PERFORM THE**  
6           **EXAMINATION OF THE APPLICATION OF PALMETTO UTILITIES,**  
7           **INC.**

8     **A.**           ORS's examination of the Company's Application for Adjustments of  
9           Rates and Charges ("Application") consisted of three major steps. In step one,  
10          ORS verified that the operating experience, reported by Palmetto in its  
11          Application, was supported by Palmetto's accounting books and records for the  
12          twelve months ended September 30, 2012 ("test year"). In the second step, ORS  
13          tested the underlying transactions in the books and records for the test year to  
14          ensure that the transactions were adequately supported, had a stated business  
15          purpose, were allowable for ratemaking purposes, and were properly recorded.  
16          Lastly, ORS's examination consisted of adjusting, as necessary, the revenues,  
17          expenditures, and capital investments to normalize the Company's operating  
18          experience and operating margin, in accordance with generally accepted  
19          regulatory principles and prior Commission orders.

20    **Q.   PLEASE IDENTIFY THE EXHIBITS ATTACHED TO YOUR**  
21          **TESTIMONY.**

22    **A.**           I have attached the following exhibits to my testimony relating to the  
23          Application:

- 1       • Audit Exhibit ICG-1: Operating Experience & Operating Margin
- 2       • Audit Exhibit ICG-2: Explanation of Accounting and Pro Forma Adjustments
- 3       • Audit Exhibit ICG-3: Computation of Depreciation and Amortization
- 4       Expense
- 5       • Audit Exhibit ICG-4: Computation of Income Taxes

6       These exhibits were either prepared by me or were prepared under my direction  
7       and supervision in compliance with recognized accounting and regulatory  
8       procedures for wastewater utility rate cases. These exhibits show various aspects  
9       of Palmetto's operations and financial position.

10    **Q. PLEASE DESCRIBE THE FORMAT OF AUDIT EXHIBIT ICG-1 AND**  
11    **ELABORATE ON THE CALCULATIONS.**

12    **A.**       Audit Exhibit ICG-1 details Palmetto's operating experience and operating  
13       margin for wastewater operations for the test year. The exhibit's format is designed  
14       to reflect Palmetto's Application per books amounts, ORS's proposed accounting  
15       and pro forma adjustments necessary to normalize the results of Palmetto's test year  
16       operations, and to calculate the impact of the proposed settlement increase on the  
17       normalized test year.

18       Column (1) details the application per books amounts reported by Palmetto for the  
19       test year. ORS verified total utility operating income of \$6,802,107, total utility  
20       operating expenses of \$4,082,143 and net income for margin of \$2,273,181 to the  
21       Company's books and records. The per books operating margin of 31.38% was  
22       calculated by using net utility operating income, less interest expense, divided by  
23       total utility operating income.

Column (2) details ORS's proposed accounting and pro forma adjustments designed to normalize Palmetto's application per books. An explanation of each adjustment is contained in Audit Exhibit ICG-2.

Column (3) details ORS's calculation of a normalized test year for Palmetto by adding columns (1) and (2). After the accounting and pro forma adjustments, net income for margin of \$995,428 was computed using total utility operating income of \$6,985,415, less total utility operating expenses of \$5,789,467, less interest expense of \$202,689, plus customer growth of \$2,169. An operating margin of 14.25% was computed by dividing net income for margin by total utility operating income.

Column (4) details the proposed settlement increase, the calculation of bad debt expenses (Adjustment 14), taxes, and customer growth associated with the proposed settlement increase. An explanation of each adjustment is contained in Audit Exhibit ICG-2.

Column (5) details the effect of the proposed settlement increase by adding columns (3) and (4). Net income for margin of \$1,372,028 was computed using total utility operating income of \$7,595,312, less total operating expenses of \$6,023,446, less total interest expense of \$202,689, plus customer growth of \$2,851. An operating margin of 18.06% was computed by dividing net income for margin by total utility operating income.

**Q. PLEASE EXPLAIN THE ADJUSTMENTS IN AUDIT EXHIBIT ICG-2.**

**A.** For comparative purposes, ORS's and Palmetto's proposed adjustments are both presented in Audit Exhibit ICG-2.

1        Adjustments 1(a) and 1(b) – Utility Operating Income - The ORS Water and  
2        Wastewater Department proposes to normalize wastewater revenues by (\$413,239)  
3        for residential customers and \$596,547 for commercial and industrial customers  
4        during the test year. These adjustments were provided by ORS witness Willie  
5        Morgan.

6        Adjustment 2 – Pumping Expenses:

7        ORS's pumping expenses adjustments total (\$51,432), and are comprised of the  
8        following:

9        Adjustment 2(a) – ORS proposes to add \$9,343 to purchase power expenses. ORS  
10       adjusted the purchase power costs to the latest available twelve (12) months for  
11       power costs experienced by the Company.

12       Adjustment 2(b) – ORS proposes to exclude Palmetto's pro forma adjustment of  
13       \$26,933 to Contractual Services (Other) for insurance claims. These claims  
14       should be paid by the responsible party (contractor), that caused the damage and  
15       not by the existing customers.

16       Adjustment 2(c) – ORS agrees with PUI's pro forma adjustment to remove  
17       (\$60,775) from Contractual Services (Other) to annualize costs associated with  
18       the right of way clearing project.

19       Adjustment 3 – Treatment and Disposal Expenses - ORS and the Company  
20       propose to add \$47,427 to Contractual Services (Management Fees) to annualize  
21       contract labor costs for operations.

22       Adjustment 4 – Customer Accounts Expenses:

1       ORS customer accounts expense adjustments totals (\$24,949) and are comprised  
2       of the following:

3       Adjustment 4(a) – ORS proposes to add \$32,628 to materials and supplies  
4       expense. Palmetto entered into a labor-only contract with a third party to perform  
5       the Company's maintenance and operation functions. Some of the material and  
6       supplies expenses were previously covered by the old contract.

7       Adjustment 4(b) – ORS agrees with Palmetto's pro forma adjustment to remove  
8       (\$58,972) from Contractual Services (Management Fees) to annualize contractual  
9       labor costs for billing and customer service.

10      Adjustment 4(c) – ORS proposes to exclude Palmetto's pro forma adjustment of  
11      \$15,249 from Contractual Services (Other) for the implementation and a  
12      conversion of new billing software. The new billing software, as of now, is not  
13      used and useful.

14      Adjustment 4(d) – ORS proposes to adjust bad debt expenses by \$1,395. This  
15      amount reflects the test period revenue write-off percentage applied to ORS's  
16      applicable pro forma revenue at present rates. This amount was provided by the  
17      ORS Water and Wastewater Department.

18      Adjustment 5 – Administrative and General Expenses:

19      ORS proposes to adjust administrative and general expenses by \$497,723. This  
20      adjustment is comprised of the following:

21      Adjustment 5(a) – ORS proposes to remove (\$19,818) from Contractual Services  
22      (Accounting). The South Carolina office is performing billing and customer

1 service for Florida's companies (Hudson and Tamiami) and these companies  
2 should be included in the allocation of the contract cost to perform these services.

3 Adjustment 5(b) – ORS proposes to remove (\$37,604) from the rental of  
4 building/real property expenses. ORS annualized and allocated the correct share  
5 of the total expenses among PUI's South Carolina companies (City of Columbia,  
6 Alpine, Woodlands and Palmetto) and Florida companies (Hudson and Tamiami).  
7 ORS proposes to allocate a portion of the cost to Ni America's Florida companies  
8 because as mentioned above, the billing and customer services for these  
9 companies are performed in their South Carolina office.

10 Adjustment 5(c) – ORS proposes to remove (\$8,291) from insurance expenses.  
11 Total insurance expenses were allocated between PUI's Florida and South  
12 Carolina companies.

13 Adjustment 5(d) – ORS proposes to remove (\$9,661) from bank service charges.  
14 Palmetto included the cost of an online payment system in its pro forma  
15 adjustment. Since this system is currently not available for use by Palmetto's  
16 customers, ORS did not include this cost in the bank service charges. In addition,  
17 as stated above, billing, customer service and payment processing functions are  
18 all performed in PUI's South Carolina office. ORS allocated all bank service  
19 charges between Ni America's Florida and South Carolina companies.

20 Adjustment 5(e) – ORS proposes to add \$56,418 for regulatory commission  
21 expenses. This amount represents current year expenses of \$171,735, amortized  
22 over a 3-year period, for an annual expense of \$57,245, plus the unamortized  
23 amount of \$19,856 from the previous rate case for total regulatory commission



1 expenses per year \$77,101, less Palmetto's per books amount of \$20,683, for an  
2 adjustment of \$56,418.

3 Adjustment 5(f) – ORS proposes to remove (\$130,208) from regulatory  
4 commission expenses. These expenses were disallowed in the last PUI rate case  
5 and were written off by the Company in the test year.

6 Adjustment 5(g) – ORS proposes to add \$693,521 to miscellaneous expenses.  
7 This amount represents total overhead expenses of \$1,536,292 less the per book  
8 amount of \$842,771, resulting in ORS's adjustment of \$693,521.

9 Adjustment 5(h) – ORS proposes to remove (\$24,931) from administrative and  
10 general expenses. These expenses included undocumented expenses, financial  
11 charges and the allocation of office supply expenses.

12 Adjustment 5(i) – ORS proposes to remove (\$21,703) from telephone expenses.  
13 ORS properly allocated telephone expense among Ni America's Florida and  
14 South Carolina companies.

15 Adjustment 6 - Depreciation and Amortization:

16 ORS proposes to add \$70,903 to depreciation and amortization expenses. This  
17 adjustment is comprised of the following:

18 Adjustment 6(a) – ORS proposes to annualize depreciation expense and adjust for  
19 known and measurable plant in service as of May 31, 2013. The details of this  
20 adjustment are shown in Audit Exhibit ICG-3. ORS updated plant in service to  
21 reflect plant additions and retirements since the end of the test year and to reflect  
22 certain costs considered nonallowable. ORS's total depreciation expense

amounted to \$2,249,488 less the per book amount of \$2,195,550, for a total adjustment of \$53,938.

Adjustment 6(b) – ORS proposes to annualize Contributions in Aid of Construction (“CIAC”) expense based on known and measurable plant. The details of the CIAC adjustment are shown on Audit Exhibit ICG-3. ORS’s total CIAC expense amounted to (\$1,570,553), less the per book amount of (\$1,587,518), for a total adjustment of \$16,965.

Adjustment 7 – Taxes Other Than Income:

ORS proposes to add \$31,790 to taxes other than income. This adjustment is comprised of the following:

Adjustment 7(a) – Taxes Other Than Income Taxes – ORS proposes to adjust gross receipts and utility/commission taxes associated with adjusted total operating income. Using the factor of .009356 and the adjusted income of \$6,985,415 ORS calculated \$65,355 less \$37,657 per books for an increase of \$27,698.

Adjustment 7(b) – ORS proposes to add \$4,092 for other taxes and licenses to reflect an increase in Blythewood’s franchise fee from 3% to 5%.

Adjustment 8 – Income Taxes:

ORS proposes to add \$1,135,862 to income taxes. This adjustment is comprised of the following:

Adjustment 8(a) - ORS proposes to add \$942,435 to federal income tax expenses to adjust taxes after accounting and pro forma adjustments. See Audit Exhibit ICG-4.

Adjustment 8(b) – ORS proposes to add \$145,889 to state income tax expenses to adjust taxes after accounting and pro forma adjustments. See Audit Exhibit ICG-4.

Adjustment 8(c) – ORS agrees with Palmetto’s proposed pro forma adjustment of \$47,538 to adjust deferred income taxes.

Adjustment 9 – Other Income and Deductions:

ORS proposes to remove (\$138,389) from other income and deductions. This adjustment is comprised of following:

Adjustment 9(a) – ORS propose to eliminate \$2,297 of non-utility interest and dividend income.

Adjustment 9(b) – ORS propose to remove (\$71,840) of non-utility Allowance for Funds Used During Construction (“AFUDC”) equity and debt.

Adjustment 9(c) – ORS propose to remove (\$157,472) of non-utility income.

Adjustment 9(d) – ORS propose to eliminate \$88,626 of miscellaneous non-utility expenses.

Adjustment 10 – Interest Expense:

ORS proposes to remove (\$382,483) from interest expense. This adjustment is comprised of the following:

Adjustment 10(a) – ORS proposes to synchronize interest expense with Palmetto’s net capital investment in the Company. ORS computed allowable interest expense of \$202,689, less the per book amount of \$498,402, for an adjustment of (\$295,713) to interest on long-term debt.

Adjustment 10(b) – ORS proposes to remove the entire per books amount of (\$86,770) for debt discount and expenses. This is a cost of financing PUI’s debt

1 and is not an operating expense. This expense is the responsibility of PUP's  
2 shareholders.

3 Adjustment 11 – Customer Growth - ORS proposes to adjust for customer growth  
4 after the accounting and pro forma adjustments using a growth factor of  
5 0.18138% computed by the ORS Water and Wastewater Department. The factor  
6 was applied to Total Net Utility Operating Income to compute the customer  
7 growth adjustment of \$2,169.

8 Adjustments 12(a) and 12(b) Service Revenues – At proposed settlement rates,  
9 Palmetto would produce additional revenues of \$425,808 for Residential Service  
10 and \$179,064 for Commercial Service. This equates to \$604,872 in additional  
11 Service Revenues for Wastewater Operations. These adjustments were provided by  
12 ORS witness Willie Morgan.

13 Adjustment 13 – Other Wastewater Revenues – ORS proposes to add \$5,025 to  
14 Other Wastewater Revenues to reflect the additional late fees the Company will  
15 accrue as a result of the proposed settlement increase. This adjustment was  
16 provided by ORS witness Willie Morgan.

17 Adjustment 14 – Customer Accounts Expenses – ORS proposes to add \$4,640 to  
18 bad debt expense. This amount reflects the test year revenue write-off percentage  
19 applied to the proposed settlement revenue. This amount was provided by the ORS  
20 Water and Wastewater Department.

21 Adjustment 15 – Taxes Other Than Income Taxes – ORS proposes to adjust for  
22 gross receipts and utility/commission taxes associated with the proposed settlement

1 increase. ORS used a factor of .009356 and the proposed increase of \$609,897,  
2 for an adjustment of \$5,706.

3 Adjustment 16 – Income Taxes:

4 ORS proposes to adjust for state and federal income taxes associated with the  
5 proposed settlement rate increase. The total adjustment amounts to \$223,633 and  
6 is comprised of the following:

7 Adjustments 16(a) – Federal Income Taxes – ORS proposes to add \$193,655 to  
8 federal income tax expenses to adjust taxes associated with the proposed  
9 settlement increase. See Audit Exhibit ICG-4.

10 Adjustments 16(b) – State Income Taxes – ORS proposes to add \$29,978 to state  
11 income tax expenses to adjust taxes associated with the proposed settlement  
12 increase. See Audit Exhibit ICG-4.

13 Adjustment 17 – ORS proposes to adjust for customer growth associated with the  
14 proposed settlement increase using a growth factor of 0.18138% computed by the  
15 ORS Water and Wastewater Department. The factor was applied to the Total Net  
16 Utility Operating Income for the proposed settlement increase for the customer  
17 growth adjustment of \$682.

18 **Q. PLEASE DESCRIBE THE REMAINING AUDIT EXHIBITS.**

19 **A.** Audit Exhibit ICG-3 shows the depreciation expense adjustment and  
20 amortization of the CIAC adjustment. Audit Exhibit ICG-4 shows the  
21 computation of income taxes.

22 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

23 **A.** Yes.

**Palmetto Utilities, Inc.**  
**Docket No. 2013-42-S**  
**Operating Experience & Operating Margin**  
**For the Test Year Ended September 30, 2012**

**Audit Exhibit ICG-1**  
**Page 1 of 1**

<u>Description</u>	(1) <u>Application Per Books</u> \$	(2) <u>Accounting &amp; Pro Forma Adjustments</u> \$	(3) <u>After Accounting &amp; Pro Forma Adjustments</u> \$	(4) <u>Proposed Settlement Increase</u> \$	(5) <u>After Proposed Settlement Increase</u> \$
<b><u>UTILITY OPERATING INCOME:</u></b>					
<b><u>Wastewater Sales Revenue</u></b>					
Total Service Revenues	6,470,284	183,308 (1)	6,653,592	604,872 (12)	7,258,464
Total Other Wastewater Revenues	331,823	0	331,823	5,025 (13)	336,848
<b><u>TOTAL UTILITY OPERATING INCOME</u></b>	<u>6,802,107</u>	<u>183,308</u>	<u>6,985,415</u>	<u>609,897</u>	<u>7,595,312</u>
<b><u>UTILITY OPERATING EXPENSES:</u></b>					
Total Pumping Expenses	1,011,986	(51,432) (2)	960,554	0	960,554
Total Treatment and Disposal Expenses	885,238	47,427 (3)	932,665	0	932,665
Total Customer Accounts Expenses	436,806	(24,949) (4)	411,857	4,640 (14)	416,497
Total Administrative and General Exp.	1,270,421	497,723 (5)	1,768,144	0	1,768,144
<b><u>TOTAL OPERATING EXPENSES</u></b>	<u>3,604,451</u>	<u>468,769</u>	<u>4,073,220</u>	<u>4,640</u>	<u>4,077,860</u>
Total Depreciation and Amortization	608,032	70,903 (6)	678,935	0	678,935
Total Taxes Other Than Income Taxes	379,036	31,790 (7)	410,826	5,706 (15)	416,532
Total Income Taxes	(509,376)	1,135,862 (8)	626,486	223,633 (16)	850,119
<b><u>TOTAL UTILITY OPERATING EXPENSES</u></b>	<u>4,082,143</u>	<u>1,707,324</u>	<u>5,789,467</u>	<u>233,979</u>	<u>6,023,446</u>
<b><u>TOTAL NET UTILITY OPERATING INCOME</u></b>	<u>2,719,964</u>	<u>(1,524,016)</u>	<u>1,195,948</u>	<u>375,918</u>	<u>1,571,866</u>
Total Other Income and Deductions	138,389	(138,389) (9)	0	0	0
Less: Total Interest Expense	585,172	(382,483) (10)	202,689	0	202,689
Add: Customer Growth	0	2,169 (11)	2,169	682 (17)	2,851
<b><u>NET INCOME FOR MARGIN</u></b>	<u>2,273,181</u>	<u>(1,277,753)</u>	<u>995,428</u>	<u>376,600</u>	<u>1,372,028</u>
Operating Margin - Note	<u>31.38%</u>		<u>14.25%</u>		<u>18.06%</u>

**Note:** Per books Operating Margin was computed using Net Utility Operating Income less Interest Expense divided by Total Utility Operating Income.

Palmetto Utilities, Inc.  
Docket No. 2013-42-S  
Explanation of Accounting and Pro forma Adjustments  
For the Test Year Ended September 30, 2012

	ORS Adj.#	PUI Adj.#	Description	\$ ORS	\$ Applicant
<b><u>Accounting and Pro forma Adjustments</u></b>					
<b>1</b>			<b><u>Utility Operating Income</u></b>		
Service Revenues - Residential	1a		To adjust residential revenues to reflect test year customer billings.	(413,239)	0
Service Revenues - Commercial & Industrial	1b		To adjust commercial and industrial revenues to reflect test year customer billings.	596,547	0
<b>Total Utility Operating Income</b>				<b>183,308</b>	<b>0</b>
<b><u>Utility Operating Expenses</u></b>					
<b>2</b>			<b><u>Pumping Expenses</u></b>		
Purchased Power	2a	1	To adjust purchased power cost to the latest available 12 months.	9,343	24,897
Contractual Services - Other	2b	4	These insurance claims should not be paid by the existing customers. One claim is against AT&T (whose contractor is now bankrupt) and one is repair work on a development's lift station.	0	26,933
Contractual Services - Other - ROW Program	2c	2	To annualize costs associated with the right of way clearing project.	(60,775)	(60,775)
<b>Total Pumping Expenses</b>				<b>(51,432)</b>	<b>(8,945)</b>
<b>3</b>			<b><u>Treatment and Disposal Expenses</u></b>		
Contractual Services - Management Fees	3	2	To annualize contract labor costs for operations.	47,427	47,427
<b>Total Treatment and Disposal Expenses</b>				<b>47,427</b>	<b>47,427</b>
<b>4</b>			<b><u>Customer Accounts Expenses</u></b>		
Materials and Supplies	4a	2	To remove some of the material cost previously included in the third party contract for operations. PUI and Utility Partners entered into labor only contract.	32,628	45,000
Contractual Services - Management Fees	4b	2	To annualize contract labor costs for billing and customer service.	(58,972)	(58,972)
Contractual Services - Other	4c	3	PUI proposed an increase for implementation and conversion of new billing software. This new software is not in use.	0	15,249
Bad Debt Expenses	4d		To include bad debt expense based on adjusted revenues.	1,395	0
<b>Total Customer Accounts Expenses</b>				<b>(24,949)</b>	<b>1,277</b>

Palmetto Utilities, Inc.  
Docket No. 2013-42-S  
Explanation of Accounting and Pro forma Adjustments  
For the Test Year Ended September 30, 2012

	ORS Adj.#	PUI Adj.#	Description	\$ ORS	\$ Applicant
<b>5 Administrative and General Expenses</b>					
Contractual Services - Accounting	5a		To remove PUI's Florida portion of the customer service contract cost.	(19,818)	0
Rental of Building/Real Property	5b	7	To annualize rent costs and allocate correct portion to PUI.	(37,604)	(18,473)
Insurance	5c		To remove Florida's portion of the insurance.	(8,291)	0
Bank Service Charges	5d	8	To properly allocate bank service charges.	(9,661)	39,196
Regulatory Commission Expenses Amortization	5e	9	To annualize regulatory commission expense over 3 years.	56,418	67,919
Regulatory Commission Expenses	5f		To remove expenses disallowed in the prior rate case.	(130,208)	0
Miscellaneous Expenses (Includes Corporate Overhead)	5g	5&6	To annualize overhead costs after removing overhead non-allowable expenses.	693,521	890,771
Nonallowable Expenses	5h		To remove non-allowable expenses.	(24,931)	0
Telephone Expenses	5i		To properly allocate the telephone expense.	(21,703)	0
<b>Total Administrative and General Expenses</b>				<b>497,723</b>	<b>979,413</b>
<b>6 Depreciation and Amortization</b>					
Depreciation Expenses	6a	10	To update depreciation expense after removing undocumented expenses, non-utility expenses, etc. See Exhibit ICG-3 for details.	53,938	67,878
Amortization Expense (CIAC)	6b	10	To reflect correct CIAC amount.	16,965	9,248
<b>Total Depreciation and Amortization Expense</b>				<b>70,903</b>	<b>77,126</b>
<b>7 Taxes Other Than Income</b>					
Utility Regulatory Assessment Fees	7		To adjust utility/commission taxes after the accounting and pro forma adjustments.	27,698	0
Other Taxes and Licenses	7b	15	To reflect an increase in Blythewood's franchise fee from 3% to 5%.	4,092	5,953
<b>Total Taxes Other Than Income</b>				<b>31,790</b>	<b>5,953</b>
<b>8 Income Taxes</b>					
Federal Income Taxes, Utility Operating Income	8a	11	To adjust federal income taxes after accounting and pro forma adjustments. See Audit Exhibit ICG-4.	942,435	567,842
State Income Taxes, Utility Operating Income	8b	11	To adjust state income taxes after accounting and pro forma adjustments. See Audit Exhibit ICG-4.	145,889	91,358
Deferred Income Taxes	8c	11	To adjust deferred income taxes.	47,538	47,538
<b>Total Income Taxes</b>				<b>1,135,862</b>	<b>706,738</b>



Palmetto Utilities, Inc.  
Docket No. 2013-42-S  
Explanation of Accounting and Pro forma Adjustments  
For the Test Year Ended September 30, 2012

	ORS Adj.#	PUI Adj.#	Description	\$ ORS	\$ Applicant
<b>9 Other Income and Deductions:</b>					
Interest and Dividend Income	9a	12	To remove non-utility interest and dividend income.	2,297	2,297
AFUDC Equity and Debt	9b	12	To remove non-utility AFUDC equity and debt.	(71,840)	(71,840)
Non-Utility Income	9c	12	To remove non-utility income.	(157,472)	(157,472)
Miscellaneous Non-Utility Expenses	9d	12	To remove miscellaneous non-utility expenses.	88,626	88,626
<b>Total Other Income and Deductions</b>				<b>(138,389)</b>	<b>(138,389)</b>
<b>10 Interest Expense</b>					
Interest on Long-Term Debt	10a		To remove non-allowable interest expense.	(295,713)	0
Debt Discount and Expenses	10b		To remove the non-allowable cost of financing PUI's debt.	(86,770)	0
<b>Total Interest Expense</b>				<b>(382,483)</b>	<b>0</b>
<b>11 Customer Growth</b>		11	To adjust for customer growth after accounting and pro forma adjustments using a growth factor of 0.18138%.	2,169	0
<b>Proposed Settlement Increase in Utility Operating Income</b>					
<b>12 Utility Operating Income</b>					
Service Revenues - Residential	12a	13	To adjust sewer service revenues for the proposed settlement rate increase.	425,808	1,138,211
Service Revenues - Commercial & Industrial	12b	13	To adjust sewer service revenues for the proposed settlement rate increase.	179,064	333,547
<b>Total Utility Operating Income</b>				<b>604,872</b>	<b>1,471,758</b>
<b>13 Total Other Wastewater Revenues</b>		13	To adjust for late fees associated with the proposed settlement increase.	5,025	0
<b>14 Bad Debt Expenses</b>		14	To include bad debt expense associated with the proposed settlement rate increase.	4,640	8,660
<b>15 Taxes Other Than Income Taxes</b>					
<b>Total Taxes Other Than Income Taxes</b>		15	To adjust utility/commission taxes associated with the proposed settlement increase.	5,706	0

Palmetto Utilities, Inc.  
Docket No. 2013-42-S  
Explanation of Accounting and Pro forma Adjustments  
For the Test Year Ended September 30, 2012

	ORS Adj.#	PUI Adj.#	Description	\$ ORS	\$ Applicant
<b>16</b>			<b><u>Income Taxes</u></b>		
Federal Income Taxes, Utility Operating Income	16a	16	To adjust federal income taxes associated with the proposed settlement increase. See Audit Exhibit ICG-4.	<u>193,655</u>	<u>470,658</u>
State Income Taxes, Utility Operating Income	16b	16	To adjust state income taxes associated with the proposed settlement increase. See Audit Exhibit ICG-4.	<u>29,978</u>	<u>72,857</u>
<b><u>Total Income Taxes</u></b>				<u><u>223,633</u></u>	<u><u>543,515</u></u>
<b>17</b>			<b><u>Customer Growth</u></b>		
		17	To adjust customer growth associated with the proposed settlement increase using a growth factor of .18138%.	<u>682</u>	<u>0</u>

Palmetto Utilities, Inc.  
Docket No. 2013-42-S  
Computation of Depreciation and Amortization Expense  
For the Test Year Ended September 30, 2012

Description	PUI Plant in Service Per Book 09/30/12	PUI's Adjustments to book	ORS Additions	ORS Retirements	ORS Nonallowables	ORS Plant in Service 12/31/2012	Service Life	Depreciation Rate	Depreciation Expense
	\$	\$				\$	Years	%	\$
<u>Collection System - Force</u>									
PVC - 4" to 30"	2,837,643	(13,533)	550,003	-	-	3,374,113	30	3.33%	112,358
DIP - 4" to 30"	133,710	-	1,366,860	-	-	1,500,570	30	3.33%	49,969
Air Release Manholes	13,964	-	-	-	-	13,964	30	3.33%	465
	2,985,317	(13,533)	1,916,863	-	-	4,888,648			162,792
<u>Collection System - Gravity</u>									
PVC - 4" to 30"	19,970,210	(444,457)	40,800	-	-	19,566,553	45	2.22%	434,377
DIP - 4" to 24"	1,571,884	-	-	-	-	1,571,884	45	2.22%	34,896
Manholes	8,829,119	-	22,503	-	-	8,851,622	30	3.33%	294,759
	30,371,213	(444,457)	63,303	-	-	29,990,059			764,032
<u>Collection System - Services to Customers</u>									
Services	1,840,763	2,157	-	-	(4,234)	1,838,686	38	2.63%	48,357
Elder Valves	1,402,996	-	125,176	-	-	1,528,172	38	2.63%	40,191
Grease Traps	13,015	-	-	-	-	13,015	38	2.63%	342
	3,256,774	2,157	125,176	-	(4,234)	3,379,873			88,890
Total Collection Plant	36,613,304					36,613,304			
<u>Pumping Plant</u>									
Structures & Improvement	3,374,858	1,354	-	-	-	3,376,212	32	3.13%	105,675
Pumping Equip - Fully Accrued	242,115	-	-	-	-	242,115			FD
Pumping Equip	5,099,338	76,808	154,972	(25,727)	-	5,305,390	18	5.56%	294,980
	8,716,311	78,162	154,972	(25,727)	-	8,923,718			400,655
<u>Treatment &amp; Disposal Plant</u>									
Land and Land Rights	136,355	-	-	-	-	136,355			N/A
Structures & Improvements	1,433,667	-	49,438	-	-	1,483,105	32	3.13%	46,421
Power Generating Equipment	364,486	-	59,208	-	-	423,694	20	5.00%	21,185
Pumping Equip - Fully Accrued	145,658	-	-	-	-	145,658			FD
Pumping Equip	520,578	4,451	28,464	-	-	553,493	18	5.56%	30,774
Treat & Disp Equip - Fully Accrued	304,221	-	-	-	-	304,221			FD
Treat & Disp Equipment	8,144,441	128,183	848,303	-	-	9,120,927	18	5.56%	507,124
Plant Sewers	462,441	-	-	-	-	462,441	35	2.86%	13,226
Outfall Sewer Lines	1,664,046	-	-	-	-	1,664,046	30	3.33%	55,413
Other Plant & Misc Equip	270,194	-	-	-	-	270,194			FD
Other Plant and Misc. Equip	1,429,729	-	-	-	-	1,429,729	18	5.56%	79,493
	14,875,816	132,634	985,413	-	-	15,993,863			753,636

Palmetto Utilities, Inc.  
Docket No. 2013-42-S  
Computation of Depreciation and Amortization Expense  
For the Test Year Ended September 30, 2012

Description	PUI Plant in Service Per Book 09/30/12	PUI's adjustments to book	ORS Additions	ORS Retirements	ORS Nonallowables	ORS Plant in Service 12/31/2012	Service Life	Depreciation Rate	Depreciation Expense
<b>General Plant</b>									
Land and Land Rights	519,247	-	292,370	-	-	811,617			
Structures and Improvements -Fully Accrued	3,716	-	-	-	(3,716)	-			N/A
Structures and Improvements	172,467	(31,789)	38,166	-	(42,774)	136,070			N/A
	695,430	(31,789)	330,536	-	(46,490)	947,687			N/A
<b>Furniture and Equipment</b>									
Furniture and Equipment	32,016	22,573	-	-	-	54,589	15	6.67%	3,641
Computers - Fully Accrued	83,825	-	-	-	-	83,825			FD
Computers	52,665	15,414	-	-	(2,881)	65,198	6	16.67%	10,868
Transportation Equipment	52,352	(2,884)	-	-	(22,000)	27,468	6	16.67%	4,579
Stores Equipment	-	-	3,171	-	-	3,171	6	16.67%	529
Tools, Shop, and Garage Equipment	177,265	(4,076)	96,322	-	-	269,511	16	6.25%	16,844
Laboratory Equipment	42,566	-	-	-	-	42,566	15	6.67%	2,839
Power Operated Equipment	176,665	59,958	-	-	-	236,623	12	8.33%	19,711
Communication Equipment	74,847	6,421	-	-	(3,706)	77,562	10	10.00%	7,756
Other Tangible Plant	119,055	3,026	5,076	-	-	127,157	10	10.00%	12,716
	811,256	100,433	104,569	-	(28,587)	987,671			79,483
<b>Totals</b>	61,712,117	(176,392)	3,680,832	(25,727)	(79,312)	65,111,518			2,249,488
Less: Per Book Depreciation Expense									
<b>Total Adjustment to Depreciation</b>									2,195,550
									53,938

**Contributions in Aid of Construction**

Description	PUI CIAC 09/30/12	PUI's adjustments to book	ORS CIAC 12/31/2012	Service Life	Amortization Rate	Amortization Expense
<b>Collection System - Force</b>						
PVC - 4" to 30"	(2,433,359)	-	(2,433,359)	30	3.33%	(81,031)
DIP - 4" to 30"	(131,213)	-	(131,213)	30	3.33%	(4,369)
Air Release Manholes	(8,362)	-	(8,362)	30	3.33%	(278)
	(2,572,934)	-	(2,572,934)			(85,678)
<b>Collection System - Gravity</b>						
PVC - 4" to 30"	(17,301,584)	-	(17,301,584)	45	2.22%	(384,095)
DIP - 4" to 24"	(1,564,197)	-	(1,564,197)	45	2.22%	(34,725)
Manholes	(8,446,703)	-	(8,446,703)	30	3.33%	(281,275)
	(27,312,484)	-	(27,312,484)			(700,095)
<b>Collection System - Services to Customers</b>						
Services	(1,743,097)	-	(1,743,097)	38	2.63%	(45,843)
Elder Valves	(1,306,357)	-	(1,306,357)	38	2.63%	(34,357)
Grease Traps	(8,609)	-	(8,609)	38	2.63%	(226)
	(3,058,063)	-	(3,058,063)			(80,426)

Palmetto Utilities, Inc.  
Docket No. 2013-42-S  
Computation of Depreciation and Amortization Expense  
For the Test Year Ended September 30, 2012

Description	PUI CIAC 09/30/12	PUI's adjustments to book	ORS CIAC 12/31/2012	Service Life	Amortization Rate	Amortization Expense
<u>Pumping Plant:</u>						
Structures and Improvements	(3,067,052)	-	(3,067,052)	32	3.13%	(95,999)
Pumping Equipment - Fully Accrued	(115,675)	-	(115,675)			FD
Pumping Equipment	(3,969,424)	-	(3,969,424)	18	5.56%	(220,700)
	(7,152,151)	-	(7,152,151)			(316,699)
<u>Treatment and Disposal Plant</u>						
Land and Land Rights	(60,845)	(161,189)	(222,034)			N/A
Structures and Improvements	(774,988)	-	(774,988)	32	3.13%	(24,257)
Power Generating Equipment	(190,541)	(30,092)	(220,633)	20	5.00%	(11,032)
Pumping Equipment - Fully Accrued	(63,030)	-	(63,030)			FD
Pumping Equipment	(278,408)	-	(278,408)	18	5.56%	(15,479)
Treat & Disp Equip - Fully Accrued	(44,345)	-	(44,345)			FD
Treat & Disp Equip	(4,978,321)	(15,527)	(4,993,848)	18	5.56%	(277,658)
Plant Sewers	(333,087)	-	(333,087)	35	2.86%	(9,526)
Outfall Sewer Lines	(275,382)	-	(275,382)	30	3.33%	(9,170)
Other Plant & Misc Equip - Fully Accrued	(133,438)	-	(133,438)			FD
Other Plant and Misc Equip	(729,003)	-	(729,003)	18	5.56%	(40,533)
	(7,861,388)	(206,808)	(8,068,196)			(387,655)
Total CIAC - Plant in Service	(47,957,020)	(206,808)	(48,163,828)			(1,570,553)
Less: Per Books Amount						
Total Adjustment to CIAC						(1,587,518)
						<u>16,965</u>

**Palmetto Utilities, Inc.**  
**Docket No. 2013-42-S**  
**Computation of Income Taxes**  
**For the Test Year Ended September 30, 2012**

<b>After Accounting &amp; Pro Forma Adjustments</b>	
	<b>\$ Wastewater Operations</b>
Operating Revenues	6,985,415
Operating Expenses	5,162,981
Net Operating Income Before Taxes	1,822,434
Less: Annualized Interest Expense	202,689
Taxable Income - State	1,619,745
State Income Tax %	5.0%
State Income Taxes	80,987
Less: State Income Taxes Per Book	(64,902)
<b>Adjustment to State Income Taxes</b>	<b>145,889</b>
Taxable Income - Federal	1,538,758
Federal Income Taxes %	34.0%
Federal Income Taxes	523,178
Less: Federal Income Taxes Per Book	(419,257)
<b>Adjustment to Federal Income Taxes</b>	<b>942,435</b>
<b>Total Adjustment to Income Taxes</b>	<b>1,088,324</b>
<b>After Proposed Settlement Increase</b>	
	<b>\$ Wastewater Operations</b>
Operating Revenues	7,595,312
Operating Expenses	5,173,327
Net Operating Income Before Taxes	2,421,985
Less: Annualized Interest Expense	202,689
Taxable Income - State	2,219,296
State Income Tax %	5.0%
State Income Taxes	110,965
Less: State Income Taxes As Adjusted	80,987
<b>Adjustment to State Income Taxes</b>	<b>29,978</b>
Taxable Income - Federal	2,108,331
Federal Income Taxes %	34.0%
Federal Income Taxes	716,833
Less: Federal Income Taxes As Adjusted	523,178
<b>Adjustment to Federal Income Taxes</b>	<b>193,655</b>
<b>Total Adjustment to Income Taxes</b>	<b>223,633</b>